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3 FINANCE AND EFFECTIVE WARTIME USE OF AGRICULTURAL RESOURCES;

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To: H. R. Tolley, Chief of Bureau

From: Norman J. Wall, Head, Division of Agricultural Finance

Subject: Financing Agriculture's War Production Program

As a part of the Division's project to analyze financial problems associated with the Food for Freedom Program, we are submitting this preliminary report entitled "Finance and Effective Wartime Use of Agricultural Resources." It deals primarily with (1) the need to emphasize those agricultural finance policies that will promote short-run efficiency in agricultural war production and (2) the several financial policies that can be utilized to make agricultural finance a more effective instrument of public policy in the Food for Freedom Program.

This brief statement has been prepared principally for the use of those who are called upon to aid in policy formulation in relation to wartime agricultural questions. It is intended to have a bearing on problems that frequently involve workable compromises among partially conflicting wartime agricultural objectives, particularly such problems as (1) obtaining on schedule the agricultural products most needed for the war, (2) holding in check forces tending to cause unwarranted increases in the cost of living, and (3) safeguarding farmers against unnecessary wartime and post-war financial hardships.

Although the analysis presented in this report is designed primarily to suggest guides for studying the broader aspects of these questions of public policy, it should be of value also to many who are concerned with specific phases of wartime and post-war agricultural policy.

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FINANCE AND EFFECTIVE WARTIME USE OF AGRICULTURAL RESOURCES

For a decade or more prior to the beginning of World War II our thinking on agricultural finance and other agricultural policies had been conditioned by what many have called the psychology of a "surplus" economy. Considerable time was required after the outbreak of World War II, therefore, before the inherent necessities of a drastic wartime "scarcity" economy became apparent.

It has taken even longer for these inherent necessities to be translated into alterations of our thinking on particular phases of national economic policy. Thus one early reaction in agricultural circles to the outbreak of the European war was to stress the opportunities that the increased wartime farm prices and incomes would afford for the correction of certain financial and other maladjustments carried over from earlier days. Emphasis was placed, for example, on the prospects that those farmers who were still in a weak financial position would at last be able to obtain enough income to set their financial houses in order. Much was said, also, on the dangers that other farmers would overvalue these increased income prospects and involve themselves in excessive new debts, as they did during the last world war. Ample evidence is available to indicate that to a considerable extent our thinking on agricultural problems in the early stages of the war ran in terms of (1) "windfall" benefits for agriculture arising from a foreign war, and (2) dangers to agriculture from the economic "stray bullets" coming from the actual arena of conflict.

With our actual entrance into the conflict, however, students of agricultural economics began to think less in terms of the war as a phenomenon that would have certain effects on agriculture and more in terms of the wartime responsibilities of agriculture in winning the war. It soon became evident that rural people would have to give up, for the time being at least, many of the desirable long-range objectives for which they had been working for years. There has naturally been little unanimity of opinion as to just what should be given up, for that is partly a question of conflicting economic interests, but gradually we have come to recognize that success in the war as a whole is conditioned on speedy and efficient mobilization of our productive power for wartime purposes in agriculture as in all other phases of our national economy. The shift from emphasis on agriculture as a "neutral" with its own economic interests to protect, to emphasis on the mobilization of agricultural resources as part of an integrated national war effort has been very gradual; but the marked change in our present thinking from that in the early stages of the war is readily apparent to those who have followed these developments closely.

This paper presents certain thoughts on the wartime reorientation that is required in one rather narrow field of public policy - agricultural finance - if we are to keep this particular field consistent with the national war effort. Events are obviously moving too fast for anyone to have absolute confidence that his own individual appraisal of the import of these events for the redirection of any particular segment of public policy is entirely correct. Yet a worth-while contribution to the formulation of public policies often can be made by delving into the inherent necessities of the situation as a whole in search of basic policy guides.

I. Productive Efficiency in Wartime

As modern wars are so largely battles of production and as the total productive resources available to us are definitely limited, efficiency in the use of these resources becomes the heart of the economic phase of the war effort. The extent to which it is desirable to promote public objectives other than efficient production of things needed to win the war is largely a question to be decided by those in a position to determine the urgency of our military needs and those of our Allies. But regardless of the precise point at which the line may be drawn in placing emphasis on military and nonmilitary objectives, it seems clear that getting the physical things needed for the war as expeditiously as possible and with the least possible drain on the resources most needed to produce these war goods must for the immediate future play an increasingly important part in our national economic policies. And, if our agricultural-finance policies are to be attuned fully to the war-production objective, it seems inescapable that such policies must give heavy weight to promotion of efficient use in the war of all our scarce resources and not just the scarce agricultural resources.

1. Need for special definition of productive efficiency under wartime conditions

But "productive efficiency" is a very general concept that has to be defined in terms of special wartime circumstances if it is to be a useful tool for analysis. We are, of course, always interested in productive efficiency, for that is one requisite of economic well-being. The only difference in wartime is the fact that economy in the use of resources has to be exercised at different points and in different degrees than in peacetime. The task of defining wartime productive efficiency is mainly one of pointing out the shifts in emphasis, as regards economical use of resources, that are required to obtain on schedule the things most needed to win the war.

One obvious reason for the shift in emphasis required for a wartime definition of productive efficiency is the fact that the valuations we have to place on certain products are quite different from those in peacetime. But getting these products when we need them often is of equal or greater importance under wartime conditions. This means that under the pressure of war demands less emphasis can be placed on certain aspects of long-run physical efficiency. Given time enough to make a gradual transition from peacetime to wartime production, it might be possible to reorient our national productive plant in such a way that we could turn out war goods with as great physical efficiency as we normally turn out peacetime goods. But certain segments of our manpower, materials, and equipment cannot be turned immediatley to the production of war goods. For various reasons they are practically "sunken resources" in the short run. This means that there is bound to be considerable physical inefficiency in the use of some of our peacetime productive power. In fact, it is now widely recognized in the industrial field that it is necessary to close down some plants to get the most efficient use of other available productive resources.

The shifts in the character and in the urgency of our needs for certain goods under wartime conditions greatly alter the relative importance in the production process of the different agents of production employed in producing these goods. In the long run the price system might be expected to place monetary values on these different agents of production that would promote their more efficient utilization by separate enterprises in the production of war goods. But even if we should be willing to allow prices to move freely, we probably could not afford to wait for the longer-run automatic price adjustments. The main job of those in charge of the war-production program is to provide the conditions under which those agents of production with high war-production valuations will be put to their highest wartime economic uses.1/ By the same token those charged with this responsibility may have to permit and even require certain resources that traditionally have been given high valuations to be used less efficiently (physically) than previously. Physical efficiency is of little help in winning a war if it results in the production of things that are not useful in the war effort.

One important factor accounting for the relative scarcity and higher valuation of certain productive resources under present circumstances is their short-run adaptability to a large number of important war-production uses. Still other resources are not adaptable in the short run to so wide a range of wartime uses, but the need in their own specialized field is so greatly increased by the war that they are scarce nevertheless. Reduced relative wartime valuations, on the other hand, may result from inflexibility in the uses to which certain resources can be put or from an absolute decline in the need for resources with highly specialized uses that once had high peacetime valuations.

If we keep in mind that scarcity is always relative, we can say that the job of promoting <u>economically</u> efficient wartime production in a national sense is one of obtaining the needed war goods on schedule at the lowest possible "scarce resource cost" per unit of output. When we are thinking in terms of expanding a certain phase of war production, or of expanding the scale of operations of a producer within a war industry, we have to be concerned with comparisons "at the margin." We want to get the added production that we need at the least "scarce resource cost" per unit of <u>added</u> output. Likewise in reducing output of goods that are less needed for the war we want to select the places to make the reductions that will release the most scarce resources per unit of output that has to be given up.

1/ The term "valuation" is used here and throughout the remainder of this paper to express the real importance of certain agents of production even though it is not expressed in market values. Such valuations find expression in our system of allocations and rationing as well as in the prices of the market. Some of the most important valuations are "extra market" in nature, as for example, military valuations of manpower under the selective service system and allocations of basic raw materials and manpower in war production.

Such cost concepts have little, if anything, to do with ordinary cost accounting. It may be quite difficult, if not impossible, to devise any refined system of accounting in terms of scarce resources that can be used on a national basis to allocate these productive resources most efficiently among different war uses and among different producers. But somewhat better results would seem to be possible if we keep in mind the fundamentals of short-run production economics that have to be considered in any economically efficient plan of wartime production. The implicit or explicit cost accounting methods used for this purpose can hardly be any more enlightened than the basic concepts on which they are based.

2. Some illustrations from agricultural production

The foregoing very brief discussion of the essentials of short-run productive efficiency has been phrased in rather general terms, both because the principles are believed to be of general applicability and because in a national war effort the problem of efficient wartime agricultural production cannot be dissociated entirely from the broader problem of efficient use of all of our relatively more scarce productive resources. Nevertheless, within the admittedly very sketchy framework of concepts already presented, many illustrations of the central principles of short-run production economics can be found in the field of agriculture. A few may be noted before turning specifically to an appraisal of the function of agricultural finance in relation to wartime agricultural production.

Some farm land, for example, has many possible wartime uses whereas other land that normally is of equal value cannot be used to advantage except for certain restricted purposes that now are not greatly in demand for the war. As a result, the wartime importance of the first type of land may have increased so that it should be used much more intensively to get the best wartime use of it. The second type of land may have become so plentiful relatively, as a result of the war, that to use scarce labor, materials, and equipment to farm it as intensively as it formerly was farmed would represent a national waste. To get the best wartime use of our land and other resources used in farming may even require that some otherwise good farms be shifted to more extensive types of farming, or even abandoned for the duration of the war, with those parts of the agricultural capital and manpower that are readily shiftable finding employment elsewhere in agricultural or industrial war production.

The high valuations we may eventually have to place on such things as manpower and transportation, and on certain materials that enter into farm equipment may have the effect of reducing the relative valuation placed on farm land. It surely is not outside the realm of reason to expect that some kinds of farm land will be found among our most plentiful resources before the end of the war. If our needs for manpower and actual implements of war should be great enough, economical use of all our scarce resources might even require that we produce less food, or the same amount of food but of a kind that makes certain kinds of land a relatively less important agent of production.

How such a development might affect the prices that would be offered for land is one factor to be taken into account in the consideration of plans to control wartime speculation in farm land.[2]

To take another illustration, many farms were very well equipped at the outbreak of the war whereas others were poorly equipped and otherwise in a run-down condition. The agricultural equipment and buildings that we already have on the well-equipped farms is something like a "war fund" of productive power. To use up certain items of this agricultural capital during the war may not place any immediate drain on our productive power. In a national sense, using up such capital does not have to be given a very heavy weight in the determination of relative costs of production. If we should consider, when determining efficiency of production, the cost to the farmer of using up this capital, as is done in the usual cost-accounting methods, it is possible that in not a few instances such a procedure would obscure the fact that in the short run the production is gotten on the well-equipped farm at a very low cost of scarce resources.

Here the usual cost-accounting procedure for comparing costs for two farms might give an improper guide for the wartime use of labor and scarce materials in expanding certain kinds of agricultural production. Any cost accounting for the war period that reckons costs in terms of alternative production opportunities which have to be foregone, would require that only the added cost in terms of those resources that could be used for important purposes elsewhere, or are very valuable in their own specialized field, should be compared with added output for the two types of farms. If a given amount of labor, fertilizer, etc. would increase war production more on the well-equipped farm than on the one less well equipped, the question of the cost to the farmer of using up already existing farm capital might not even have to enter into the decision. From the national standpoint we should only be making an economical use of a "war fund" of capital equipment. The using up of such equipment would be serious only if its replacement became necessary during the war. This does not mean, however, that the owner of the well-equipped farm should not be compensated for the capital depletion. This is a question of motivation and equity.

Again, some farm manpower may be almost as fixed in its present uses as certain specialized farm land and equipment. Expanding production on a farm supplied with a large amount of labor that represents a sunken resource in the short run may not place any additional drain on the supply of farm labor for other farms or for industrial production. If so, the "cost" of the added production that is significant in a short-run period is found in the fertilizer, livestock, farm machinery, etc., that would have to be combined with the existing labor on these farms to increase the output. From the national standpoint using more fully the labor that otherwise might be only partially employed may be much less significant in terms of short-run productive

2/ The possibilities in this direction are suggested by the considerations that now have to enter into the valuation of vacant urban building lots on which it is not feasible to build because of labor and building material restrictions.

efficiency than obtaining the most efficient use of the other things needed to expand production. For the purpose of allocating scarce resources, primary attention may have to be given to the added output obtainable per unit of resources that can find other important wartime uses.

Somewhat the same points may be made with respect to the desirability of obtaining added food production from one kind of agricultural products rather than from another. Assume, for example, that the increase of pork production and the increase of dairy products are alternatives in the same area. If we were thinking of long-run adjustments in types of farming, it would be appropriate to consider all of the customary elements of cost in deciding which kind of production should be expanded. But in the short run it is the added output of food obtainable with a given input of scarce productive resources, or the loss of production if a given amount of productive resources is taken away from a particular field, that is of most significance when comparing costs of alternative lines of production expansion.

All such illustrations, whether with reference to farm land, labor, or capital, or the production of alternative farm products, bring out the more general point that some of our existing production facilities and manpower, including those in agriculture, have to be regarded as "sunken resources" for any short period such as that likely to be covered by the war. In the interest of speedy increases of certain kinds of production we may have to be inefficient (physically) in the use of certain of these sunken resources that in peacetime might be valued very highly and accordingly used economically.

How "inefficient" we can afford to be in using up our "war fund" of accumulated productive power represented by agricultural capital depends on how fast we have to expand production to meet pressing needs and on how long we have to hold out economically. In other words, the kind of cost accounting we need in order to set up schedules of costs as guides for production depends on the best estimates we can make regarding both the aggregate economic drain that the war will cause and the relative value, in connection with the war, of immediate _versus_ sustained production. These are questions that have to be resolved ultimately on the basis of military facts with which probably only a few can be entrusted. If the war promises to last only a year or two more, then we can safely ignore a great deal of the capital consumption as a cost to be considered in planning our production program. But if a 10-year conflict is in prospect, then this capital consumption becomes a much more important item in the determination of the schedules of costs that are to serve as production guides.

But the question must inevitably arise as to how we are going to get farmers who would be expected to value their land and agricultural capital in part at least in terms of long-run income prospects to treat them in the war emergency in the way that is required to achieve short-run national productive efficiency. We apparently have no intention of appropriating farmers' property, nor of asking them to wear out their farm plants and to furnish their labor without reasonable compensation. How to bring private and public interest into harmony here is partly a problem of agricultural-finance policy

to be discussed in the following section on the use of finance to promote maximum efficiency use of agricultural resources. If the physical wartime production job can be visualized somewhat along the lines illustrated above, then the problem of using public agricultural-finance policy to facilitate its achievement becomes largely one of adapting to wartime uses one of the oldest and most powerful instruments of economic control in the hands of government.

II. Finance and Wartime Productive Efficiency in Agriculture

Financial policy is obviously only one of several instruments of economic control available to government to promote efficient production of war goods. In some respects finance supplements other more direct controls such as rationing, allocations, and priorities. In other respects, however, it can be regarded as an alternative method for accomplishing similar objectives. In this discussion no attempt is made to pass judgment on the desirability of using finance in preference to some other economic control to promote efficiency in agricultural production. Rather, the approach is to indicate the general types of agricultural-finance policies that are consistent with the requirements of wartime efficiency in agricultural production.

1. Nature of finance as an instrument of economic control

The concept of finance as an instrument of public policy that can be turned to the promotion of efficient war production may be clarified somewhat if we recapitulate briefly the assumptions lying back of this concept. In the field of production economics for the individual farm, all recognize the need of the farmer to be most economical (or efficient) in the use of the most expensive agents of production. This is a principle we have all been taught in beginning courses in economics. The same general principle holds also when a nation attempts to constitute itself into an integrated war-production machine. We have to use most economically those agents of production that have the highest war-production valuations under the special circumstances of the time.

But the price system of monetary values under present conditions cannot always express true wartime valuations for the several agents of production, in part because we do not allow all prices to move freely and in part because even those that do move relatively freely do not always represent short-run valuations to the extent needed to serve as accurate guides for the use of scarce resources under wartime conditions. As a result, the wartime guides for production have to be set up to a considerable extent in terms of "extra market" valuations, which are reflected in rationing, allocations, priorities, and related direct controls.

But the institutional framework of our economy is still set up to work chiefly in terms of money costs and prices and money contracts that reflect the influences of both present and past market valuations. The farmer is expected to meet his production expenses and pay his previously contracted debts out of money income regardless of the extra market valuations we may set on his

production for the war. One function of finance, therefore, becomes that of helping to see that a war-production system guided basically by extra market valuations can function effectively while at the same time individual producers have to function largely within the legal framework of a peacetime economic society and according to the ordinary market valuations with which they are familiar. Finance can help to harmonize a set of national wartime guides for production that have to be formulated mostly in physical terms with the institutional necessities of peacetime market price economy. In a sense, finance serves as an oil that reduces the friction of speedy reorientation of our production pattern for short-run war needs, and helps to make possible what amounts to emergency socialization of national productive power within the modified mechanisms of a peacetime price, private property, and free enterprise economy.

The mechanisms of the economic controls based on the use of finance are very complicated in operation because such control operates mainly through the institutions of a money economy. However, certain fundamental aspects of this control mechanism can be summarized briefly. Whether finance is public or private, it involves immediate shifting of money purchasing power from one person to another, from private to public hands or vice versa, or from one segment of the economy to another, without an immediate counterbalancing quid pro quo in the form of goods or services. The "one way" character of finance in the short run is the source of its great usefulness in giving a new direction to production. Shifting the control over money purchasing power in the first instance facilitates a very speedy change in the control over physical resources.

Nonexpansionary financing involves absolute increases in the money pruchasing power placed in certain hands along with corresponding absolute reductions in the money purchasing power available to others. Expansionary financing increases the relative share of the total money purchasing power at the disposal of some sectors of the economy, including government, usually by expanding credit more rapidly for certain purposes than for others. Whether the shift is absolute or relative, the fundamental effect in the first instance is to shift ability to gain economic control over manpower, materials, and equipment by altering relative abilities to buy in the market. To the extent that a free market is permitted to exist, financial policy alone can be an effective and speedy means to alter the direction of production.

Viewed in this light, finance includes not only the creation and liquidation of public and private debts but also taxation and public grants. All are largely "one way" flows of money purchasing power in the short run. Finance as the term is used here, however, is not intended to include transactions involving exclusively an exchange of goods or services for money, which would be more in the nature of pricing.[3]

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[3] The authors have no illusions regarding the difficulties in defining finance in a way that distinguishes it clearly from pricing. For example, nonrecourse loans that are used for price-stabilization purposes are difficult to classify. Likewise, advance payments on products that are not yet produced present similar difficulties. In such cases, finance and pricing are merged in one process. How these transactions are to be classified depends mainly on what aspect of the transaction is given dominant weight.

Agricultural finance as the term is here used includes such things as the creation and liquidation of farm debts, purchases and sales of Government bonds by farmers, agricultural taxation, and agricultural subsidies. All of these transactions, involving shifts of purchasing power within agriculture or between agriculture and other parts of the economy, represent changes in the distribution of purchasing power that conceptually are distinct from those resulting from changes in the primary income distribution. Such changes can be effected regardless of whether the production process has provided a basis for income payments. The extensive power of government to make prompt changes in both the relative and absolute distribution of money purchasing power through such financial operations has long been one of the most influential instruments of economic control in the hand of government in times of national emergency.

2. Credit expansion and public subsidies

Viewed from the standpoint of government, credit extended by its agencies or by private lenders, and public subsidies to particular groups, place purchasing power into hands that otherwise might not be able to command resources. In a free market in which bidding for resources is permitted, credit expansion and public subsidies can have a great influence on how our national resources are used. And even if the market is restricted, such methods of providing purchasing power still serve the important function of facilitating the shifting of economic control over resources from those who have legal title to them to those who are authorized by government to use them. As a part of the productive-resource market is relatively free and a part is narrowly restricted during wartime, credit and subsidies serve in both capacities -- in part by giving more bidding power in the market to some than to others and in part by providing the means by which direct public allocations of resources can be effected legally in an economy based on private property.

If we inquire then as to what basic guides should be followed in wartime policies regarding agricultural credit and subsidies, the answer in the most general terms appears to be relatively simple. Insofar as we are interested primarily in efficient short-run uses of agricultural resources for war production, the test of good credit and subsidy policy is that it contributes to the placing of the scarce productive resources where they will do the most immediate good for war production.

Such a test has to be chiefly in the nature of an ideal rather than a specific guide. In fact, the most difficult problem may not be a financial problem at all. The first problem is one of identifying high and low economic uses of specific resources. This, however, is a problem that we are having to deal with daily. Our credit and subsidy policies cannot perform the functions that are fundamentally problems of setting up valid schedules of extra market valuations as guides for production. Credit and subsidy policies come into the picture only as means for the achievement of predetermined ends.

There are, of course, still other practical limitations to the effective use of credit and subsidies to facilitate efficient war production. The tendency to adhere to the usual tests of sound credit based on the risk of loss of

principal, which is due in part at least to legal requirements under which lending agencies operate, and to adhere to the usual test of subsidy policy based on "need," may interfere with the development of wartime credit and subsidy policies attuned to the objective of efficient war production. Then, too, the tendency to attempt to accomplish a multiplicity of peacetime objectives, by means of credit and subsidy policies, that are inconsistent with the objective of efficient war production may interfere in the same way. These are problems of setting priorities among conflicting public objectives. It is much easier to state the functions of agricultural credit and subsidies in relation to wartime uses of scarce-productive resources than it is to adhere to the policies that will make them effective wartime economic controls for this purpose.

It is especially important, for example, to examine carefully all agricultural credit and subsidy proposals that purport to reduce the real war and post-war burdens of farmers. Credit and subsidy policies that make the real burden of the war lighter for farmers (or for any other group) may merely have the effect of placing heavier burdens on others or of giving farmers an incentive to do less than their best to help win the war. Such measures can reduce as well as increase the desirability of using productive power in the best interest of efficient war production. If efficient wartime production is the primary objective, then each proposed use of credit or subsidies must be subjected first to the test of whether it contributes to, or at least will not interfere with, efficient war production.

By skillful manipulation of credit and subsidies it should be possible to induce a larger proportion of the farmers to use their productive power with the degree of short-run efficiency needed in the interest of emergency war production. This may mean that some will have to wear out and otherwise give up resources now, with no current increase in real income. Others may have to use their land less intensively or even abandon it. How to devise the specific financial machinery that will induce farmers to work hard and produce efficiently now, with confidence that differences among farmers' contributions to the winning of the war will be compensated for in some fashion after the war, is a problem for which as yet no very definitive answer has been given.

It is true, of course, that the problem of equitable treatment of different individuals and economic groups is to such a large extent a problem of post-war economic and fiscal policy that it cannot be dealt with entirely on a current basis. But if efficient short-run use of agricultural resources is of real influence in winning the war, then the financial measures that will give farmers an incentive to use their resources in the best interest of winning the war also take on real public importance. Whether in fact these financial incentives can accomplish the double objective of facilitating efficient production and distributing the war costs equitably can be determined finally only in the light of post-war developments that we cannot now foresee.

3. Debt repayment, war-bond purchases, and cash-reserve accumulation

Whereas credit expansion and the disbursement of public subsidies contribute to the money purchasing power available to certain sectors of the economy to obtain control over productive resources, it is true that debt repayment, purchases of war bonds, and other forms of saving represent relinquishments of claims over productive resources. Insofar as the efficient short-run organization of agricultural resources for war production is concerned, the objective should be to encourage financial practices leading to scarce resource relinquishment in those cases in which the resources so released can be put to temporarily higher wartime uses. Here again a determination of what are high and low uses has to lie back of financial policy.

Such a guide for bond purchases and debt repayment is again rather easy to formulate in broad outline but difficult to apply in specific cases. When appeals are made to patriotism in campaigns for bond purchases and debt repayment, a part of the force of such an appeal may be lost if some farmers are told that they should use a high percentage of their net incomes for these purposes whereas others are told that they should actually increase their debts and use up their liquid financial resources. It is difficult to get intelligent discrimination in a program of mass action. To get the final results that are desired may even require that a combination of rigid bond quotas and debt-repayment schedules be used in conjunction with a credit and subsidy program that compensates for the misdirection of resource use resulting from the rigid savings program.

It should be noted that agriculture is peculiar in that in most cases farm-business income and personal income are merged. For example, in the farmer's dual capacity as an income receiver and an entrepreneur, he may be so situated that he can make his best contribution to efficient war production by (1) plowing back into his business all income above that needed for minimum family living and (2) borrowing additional funds to acquire resources to expand his operations. As such a farmer presumably would be using his income directly to finance agricultural war production, little if anything might be gained for the war effort, as a whole, by urging him to save more of his income in the form of debt repayment and war-bond purchases to finance indirectly other forms of war production.

But it may be argued that a program which encourages certain farmers to expand production on credit is inflationary. The charge would be true if confined to such transactions. But there probably are others (farmers included) that are not in a position to make a very significant contribution to the war in their present situation by increasing their use of credit or plowing their current income back into their business, but whose total income may still be high enough to permit increased debt repayment, bond purchases, and other forms of saving. We do not condemn as inflationary the industrial borrowing that is required to produce instruments of war. Is it logical to condemn particular financial measures merely because they are inflationary and without taking into account their real significance as a part of the entire war effort? To the extent that the financial mechanisms are permitted to operate to help re-shape our production pattern, we must expect to have some forces operating inflationwise and others contra-inflationwise. In fact, that is the essence

of the financial process of shifting control over resources in a free market. And if we do not assume some freedom in the market, the question of inflation loses most of its significance. Our main job is to see that the inflationary and anti-inflationary tendencies operate at the right points.

The argument may be made that failure of certain farmers to pay debts and build up financial reserves will leave them in an untenable debt situation later. This again could well be the case, but there are many ways by which the risks of such financial operations can be assumed in part at least by the Nation as a whole. In fact, to insure that those farmers who are able to add significantly to war production at a low cost of scarce resources will do so it may be necessary to provide the appropriate public guarantees to underwrite production expenses and capital investment. Such guarantees would represent an attempt to remove impediments to efficient production by placing a part of the risk on the Nation as a whole. How much, if any, public assumption of such risk is needed is largely a question for administrative determination.

The main point would appear to be that using finance as a means to obtain needed agricultural production at a minimum scarce-resource cost may involve selective credit expansion and subsidies along with selective debt retirement and savings. The net effects are likely to be inflationwise chiefly because it is easier to induce credit expansion and to distribute subsidies than it is to induce curtailment of expenditures. But indiscriminate efforts to prevent all inflationary tendencies might easily do great harm to efficient production. Because finance is such a powerful instrument of selective economic control it requires careful handling. But blind fear of finance can render it useless just as failure to realize its potential dangers can cause much damage.

III. Place of Objectives Unrelated to Efficient War Production in Agricultural-Finance Policy

The foregoing discussion has proceeded on the assumption that we are sufficiently interested in efficient war production in agriculture to be willing to assign relatively low priority ratings to other objectives not directly related to, and often in conflict with, this major objective. But even though this be the case, the point must be reached at which the value of certain resources in war production may be so low that they might well be used to further some other desirable objective not connected directly with the war. Such problems cannot be avoided. At what point slightly less efficient war production is preferable to giving up very desirable things that could be sacrificed if necessary to win the war, has to be decided mainly in terms of the urgency of our military needs. Likewise the extent to which agricultural-finance policy can properly promote objectives that do not contribute much, if anything, to the war-production job, or that may actually detract from it, can be decided only in terms of the urgency of our military needs.

Difficult as the decisions may be as to whether or not agricultural-finance policy can afford to promote certain nonwar objectives concurrently with promotion of efficient agricultural production, such decisions have nevertheless to

be made, or answered by default, when the questions arise. Are we contributing to an understanding of the real issues at stake, for instance, if we go no further than to assert that we want enough credit expansion for agriculture to insure that agricultural resources are placed in hands that will use them efficiently for war production, but not so much credit expansion that the fires of inflation will be fed and farmers will get heavily into debt? The answer cannot be given alone in terms of "how much." How badly we want to prevent rising commodity prices during the war and untenable debt situations after the war is public policy decision, but it cannot be made independently of the public policy decision as to how badly we want efficient and speedy redirection of agricultural production to win the war.

So long as we recognize, at the time we decide to use agricultural-finance policy indiscriminately to help prevent inflation or to protect farmers against the risks of wartime and post-war readjustments, that we may thereby be making a decision to be satisfied with somewhat less emphasis on efficient agricultural production, then we are not likely to overemphasize such objectives to the detriment of our urgent military needs. The danger lies in the failure to recognize that certain very desirable peacetime and post-war objectives of agricultural-finance policy may run counter to immediate wartime objectives to which we are trying to give a high priority rating. Would we not be running risks of neutralizing agricultural finance as an instrument of wartime economic control if we should pursue certain policies solely because they appear to be anti-inflationary, other policies solely because they seem to further the wartime agricultural-production program, and still others solely because they promise to give farmers protection against wartime and post-war financial hardships? It may become necessary to choose the points at which anti-inflationary policies are appropriate, the points at which credit expansion and subsidies should be used to get production at a low scarce-resource cost, and the specific measures that can be taken to socialize war and post-war financial risks of agriculture without thereby misdirecting the use of scarce agricultural resources to win the war.

Perhaps the main thought that needs emphasis in the consideration of wartime agricultural-finance policy could be paraphrased along the lines of the oft-quoted statement by T. N. Carver relative to farm credit. It might run as follows: "There is no magic about agricultural finance as an instrument of wartime economic policy. It is a powerful agency for good in the hands of those who know how to use it. So is a buzz saw. They are about equally dangerous in the hands of those who do not understand them." This paper does not claim to offer a blue print for agricultural-finance policy in wartime. But it may serve to stimulate thought on this subject which will contribute to a somewhat better understanding than now prevails of the potentialities, both good and bad, of this important instrument of economic control.